

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

October 20, 2015

Agenda ID #14386
Ratesetting

TO PARTIES OF RECORD IN APPLICATION 14-07-005:

This is the proposed decision of Administrative Law Judge Lirag, previously designated as the presiding officer in this proceeding. It is filed and served upon the service list to this proceeding as a courtesy only. It will appear on the November 5, 2015 Commission's agenda. This matter was categorized as ratesetting and is subject to Pub. Util. Code § 1701.3(c). Upon the request of any Commissioner, a Ratesetting Deliberative Meeting (RDM) may be held. If that occurs, the Commission will prepare and publish an agenda for the RDM 10 days beforehand. When the RDM is held, there is a related *ex parte* communications prohibition period. (See Rule 8.2(c)(4).)

When the Commission acts on the proposed decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Pursuant to Rule 14.6(b), the period for public review and comment on the proposed decision is waived due to stipulation of all parties.

/s/ KAREN V. CLOPTON

Karen V. Clopton, Chief
Administrative Law Judge

KVC:vm2

Attachment

Decision **PROPOSED DECISION OF ALJ LIRAG**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) and Grant Park Development, Inc. (dba Dunnigan Water Works) (U437W) for an Order Authorizing Dunnigan Water Works to Sell and California-American Water Company to Purchase the Public Utility Assets of Dunnigan Water Works.

Application 14-07-005
(Filed July 11, 2014)

**DECISION AUTHORIZING CALIFORNIA-AMERICAN WATER COMPANY
TO PURCHASE THE PUBLIC UTILITY ASSETS OF
DUNNIGAN WATER WORKS**

TABLE OF CONTENTS

Title	Page
DECISION AUTHORIZING CALIFORNIA-AMERICAN WATER COMPANY .	1
TO PURCHASE THE PUBLIC UTILITY ASSETS OF	1
DUNNIGAN WATER WORKS.....	1
A.14-07-005 ALJ/RL8/vm2 PROPOSED DECISION	2
DECISION AUTHORIZING CALIFORNIA-AMERICAN WATER COMPANY .	2
TO PURCHASE THE PUBLIC UTILITY ASSETS OF	2
DUNNIGAN WATER WORKS.....	2
Summary.....	2
1. Background.....	3
2. Request	5
3. Standard of Review	7
4. Settlement Proposal Discussion.....	8
4.1. Settlement proposal	8
4.2. Sale of Dunnigan to Cal-Am and amendment of Certificate of Public Convenience and Necessity (CPCN).....	9
4.3. Purchase price and retention of Dunnigan owners as consultants	10
4.4. Consolidation and adjustment to rate base	11
4.5. Retention of current rates and memorandum accounts	13
5. Standard of Review Discussion	14
5.1. Effect on service quality of proposed sale	14
5.2. Effect on service continuity of proposed sale	15
5.3. Effect of purchase price on rate base and whether the purchase price is reasonable and properly calculated	15
5.4. Safety	17
5.5. California Environmental Quality Act (CEQA) review	18
6. Conclusion	19
7. Categorization and Need for Hearings	20
8. Comments on Proposed Decision	21
9. Assignment of Proceeding	21
Findings of Fact.....	21
Conclusions of Law	23
ORDER 25	

**DECISION AUTHORIZING CALIFORNIA-AMERICAN WATER COMPANY
TO PURCHASE THE PUBLIC UTILITY ASSETS OF
DUNNIGAN WATER WORKS**

Summary

This decision authorizes California-American Water Company (Cal-Am) to purchase, and Grant Park Development, Inc. doing business as Dunnigan Water Works (Dunnigan), to sell, the public utility assets of Dunnigan.

This decision also approves the proposed settlement between all the parties to the proceeding, namely, Cal-Am, Dunnigan and the Office of Ratepayer Advocates.

Key terms of the settlement adopted by the California Public Utilities Commission include: (a) sale of Dunnigan's public utility assets to Cal-Am for \$2,000,000; (b) Dunnigan is relieved of its public utility obligations; (c) Cal-Am's certificate of public convenience and necessity is expanded to include Dunnigan's service area; (d) Cal-Am is authorized to retain the two owners of Dunnigan as consultants for a period of six years at \$12,500 per month collectively or \$900,000 total, for consultancy services; (e) Dunnigan's current rates for water service are retained until the conclusion of Cal-Am's next general rate case (GRC), subject to adjustment for costs of addressing required environmental and operational compliance issues; (f) Consolidation of Dunnigan's service territory for ratemaking purposes into Cal-Am's Sacramento service area; (g) Establishment of an adjustment to the Sacramento district rate base to reflect the \$2,000,000 purchase price and additional adjustments to reflect the costs of separating

existing facilities from non-facilities¹; and (h) The creation of four memorandum accounts to track the costs of addressing: (i) hexavalent chromium in the Dunnigan service territory; (ii) other required environmental improvements and compliance issues; (iii) consulting payments for the Dunnigan owners; and (iv) an account of accumulated pre-closing costs up to \$100,000 total, incurred by Cal-Am in connection with this purchase, recovery of which will be requested in its next GRC.

1. Background

On July 11, 2014, Applicants California-American Water Company (Cal-Am) and Grant Park Development, Inc. (Grant Park), doing business as Dunnigan Water Works (Dunnigan), filed Application (A.) 14-07-005 requesting authorization for Grant Park to sell, and Cal-Am to buy, all of the public utility assets owned by Dunnigan used in the provision of public utility water and wastewater service in its certified service territory in Yolo County.

Dunnigan is a Class D public utility water company regulated by the California Public Utilities Commission (Commission), and provides drinking water and wastewater services to approximately 253 non-metered residential service connections at the Happy Time RV Park and mobile home community in the unincorporated community of Dunnigan in Yolo County.

Cal-Am is a Class A public utility water and sewer company regulated by the Commission that provides regulated water and wastewater utility services in parts of San Diego, Los Angeles, Ventura, Monterey, Sonoma, Sacramento, and Placer Counties.

¹ Non-facilities refer to the existing community restroom facilities at the Happy Time RV Park and mobile home community.

In addition to the approval of the sale and purchase of Dunnigan's public utility assets, the application also requests the following:² (a) that Dunnigan be relieved of its public utility obligations; (b) that Cal-Am's water service territory be expanded to cover Dunnigan's area; (c) that Dunnigan's current service territory be consolidated into Cal-Am's Sacramento service area for ratemaking purposes; (d) that Dunnigan's current rates remain in effect until new rates are established in Cal-Am's next general rate case (GRC); and (e) that two memorandum accounts to address environmental issues be approved.³

On August 18, 2014, the Office of Ratepayer Advocates (ORA) filed a protest to the application. ORA raised several issues such as the reasonableness of the valuation, the use of future connection fees as installment payments, and adjustments to rate base. ORA also expressed the need to conduct further discovery in order to properly analyze the different issues regarding the proposed transaction.

A prehearing conference (PHC) was held on September 16, 2014. At the PHC, parties discussed the issues each believed was within the scope of the proceeding. The parties also discussed the possibility of being able to settle some or all outstanding issues after ORA completes its analysis of the proposed transaction and related requests.

On January 30, 2015, ORA filed a motion for dismissal arguing that the application is deficient, lacked supporting materials and was incomplete.⁴

² See A.14-07-005 at 1-2.

³ The memorandum accounts will track costs of addressing hexavalent chromium and other required environmental improvements and compliance issues.

⁴ Motion for Dismissal filed on January 30, 2015.

Cal-Am filed an opposition to ORA's motion to dismiss on February 17, 2015. The February 23, 2015 Administrative Law Judge (ALJ) ruling denied the motion for dismissal. The ALJ ruling explained that the issues raised by ORA in support of its motion to dismiss can be more appropriately considered during review of the application and at evidentiary hearings (EH) where contested facts can be disputed or supported by proper evidence.

EH were held on March 24, 2015, and April 1, 2015. Additional hearing dates were cancelled in light of the parties having reached a settlement agreement. A motion to approve settlement was jointly filed by Cal-Am, Dunnigan and ORA on July 10, 2015.⁵

On August 7, 2015, a joint motion to receive evidence into the record was filed by Cal-Am and ORA. No opposition to the joint motion was received. On August 27, 2015, the assigned ALJ granted the joint motion to receive evidence into the record.

On August 14, 2015, the assigned ALJ issued a ruling requiring additional information regarding the retention of Dunnigan owners as consultants post sale. The parties provided a joint response on August 31, 2015. No comments to the joint response were received. The submission date for the proceeding is August 31, 2015.

2. Request

On December 30, 2013, applicants entered into an asset purchase agreement whereby Cal-Am will purchase from Dunnigan all of the assets that comprise the Dunnigan water and wastewater systems, as well as easements,

⁵ See Motion to Approve Settlement Agreement filed on July 10, 2015.

rights of way, and water rights necessary to provide domestic water and wastewater service in Dunnigan's service territory. Dunnigan's groundwater supply consists of two wells. The two shareholders of Dunnigan are contemplating retirement and have been searching for an experienced water and wastewater operator to assume the provision of public utility water and wastewater services to their customers.

The proposed settlement agreement filed by the parties however, supercedes the application and asset purchase agreement where it differs with respect to certain terms. As such, the applicants' requests have been modified and are summarized as follows:

1. The Commission approve the sale of Dunnigan's public utility assets to Cal-Am;
2. The Commission relieve Dunnigan of its public utility obligations;
3. The Commission authorize Cal-Am to be the public utility provider of water and wastewater service in Dunnigan's service area and that Cal-Am's certificate of public convenience and necessity be expanded to include Dunnigan's service area;
4. Cal-Am pay Dunnigan \$2,000,000 for its public utility assets;
5. Cal-Am retain the two owners of Dunnigan as consultants for a period of six years, with a payment of \$12,500 per month (\$900,000 total for six years) for consulting services;
6. Dunnigan's current service territory be consolidated for ratemaking purposes into Cal-Am's Sacramento service area;

7. The Commission approve the establishment of an adjustment to the Sacramento district rate base to reflect the \$2,000,000 purchase price and an additional adjustment to reflect the costs of separating existing facilities from non-facilities;⁶
8. The Commission establish Dunnigan's current rates for water service as rates for the area until the conclusion of Cal-Am's next (GRC), subject to adjustment, also after the conclusion of Cal-Am's next GRC, to account for the costs of addressing required environmental and operational compliance issues, improvements, and other water quality environmental issues; and
9. The Commission approve the creation of four memorandum accounts pursuant to Commission Standard Practice U27W, to track the costs of addressing:
 - a) hexavalent chromium in the former Dunnigan service territory; b) other required environmental improvements and compliance issues in the Dunnigan service territory; c) the consulting payments for the Dunnigan owners; and d) an account of accumulated pre-closing costs up to \$100,000, incurred by Cal-Am in connection with this purchase, which will be requested in its next GRC.

3. Standard of Review

Proposed water utility ownership changes are reviewed under Public Utilities Code Sections 851-854, which prohibits the sale or transfer of control of a public utility without the advance approval of the Commission, and Sections 2718-2720, which encourages the acquisition of small water companies by larger, more financially secure entities and requires the Commission to use the fair market value or a method of valuation that is just and equitable.

⁶ Specifically, to separate existing restroom facilities from existing utility facilities.

The Commission requires a test of ratepayer indifference when evaluating the sale of a public utility. The buyer's acquisition of the public utility must show a tangible benefit to the ratepayer. Key metrics to be evaluated by the Commission for the sale of Dunnigan's water utility assets to Cal-Am include the following: (a) service quality; (b) continuity of service; and (c) the impact of the purchase price on rate base.

4. Settlement Proposal Discussion

4.1. Settlement proposal

As stated in the background section of this decision, the application was protested by ORA, but parties to the proceeding were able to reach a settlement agreement.

A settlement under Rule 12.1(a)⁷ of the Rules of Practice and Procedure may be filed after the first PHC is held. In this case, a proposed settlement was timely filed on July 10, 2015, following a ruling extending the time frame to file the proposed settlement.⁸

The proposed settlement involves all the parties to the proceeding and intends to fully resolve all issues raised by ORA in its protest, as well as contested facts and issues raised during the hearing. The key terms of the settlement are the requests listed in Section 3 of this decision.

⁷ Rule 12.1(a) states that "Parties may, by written motion any time after the first PHC and within 30 days after the last day of hearing, propose settlements on the resolution of any material issue of law or fact or on a mutually agreeable outcome to the proceeding..."

⁸ See ALJ ruling issued on June 30, 2015, granting extension of time to file settlement proposal until July 10, 2015.

The Commission notes that several terms in the proposed settlement state that the Commission will undertake certain specific acts or approve specified requests.⁹ However, the settlement agreement cannot bind the Commission or require it to perform specific acts. Therefore, the Commission interprets these provisions to mean that the parties agree to recommend that the Commission perform these acts and grant requested approvals.

4.2. Sale of Dunnigan to Cal-Am and amendment of Certificate of Public Convenience and Necessity (CPCN)

The settlement proposes that the sale of Dunnigan to Cal-Am be approved by the Commission, that Dunnigan be relieved of its public utility obligations and that Cal-Am's CPCN and necessity be expanded to include Dunnigan's service area.

The standard for review of proposed water utility ownership changes are discussed with more detail in Section 3 of the decision. The Commission has recognized that smaller water companies may not have the resources to provide safe, clean and reliable water in the long-term, and supports incentives for the acquisition or operation of small water and sewer utilities.

Large water utilities are able to achieve many benefits associated with economies of scale. With economies of scale, the average cost of providing service to each customer typically decreases per customer as the size of the water system increases. The decrease in cost per customer is attributed to being able to spread certain fixed costs such as system infrastructure, administrative costs, etc. over a larger number of customers. Dunnigan customers should benefit from

⁹ See Settlement Agreement sections 6.1(d), 6.1(e), 6.1(f), 6.1(g), 6.1(i) and 6.1(j).

lower costs in compliance with regulatory requirements, maintenance of customer information and billing systems, the purchase of supplies and materials, and other benefits associated with economies of scale. Cal-Am is also better equipped to resolve several environmental and compliance issues that the Dunnigan water system is facing such as the high concentration level of Hexavalent Chromium detected in Dunnigan's water, the presence of nitrates detected in upper level groundwater, repair of a cracked surface seal on the main well, and construction of a back-up well and back-up electrical power source.

Because we approve the sale, it is reasonable and necessary to amend Cal-Am's existing CPCN to include the Dunnigan service area, which is currently covered by Dunnigan's CPCN to operate.

4.3. Purchase price and retention of Dunnigan owners as consultants

The proposed settlement sets the purchase price at \$2,000,000. In addition, it is proposed that Cal-Am retain the services of the Dunnigan owners as consultants for a period of six years at a cost of \$12,500 per month for such consultancy services or a total of \$900,000 over the six-year consultancy period.

The replacement cost of new, less depreciation (RCNLD) of the Dunnigan water system had a valuation of \$6,525,016¹⁰ as presented by Cal-Am and Dunnigan in their initial application. However the purchase and sale agreement included a maximum price of \$4,500,000 for the Dunnigan water system despite the higher RCNLD valuation. The RCNLD valuation and maximum purchase price was heavily protested by ORA and during the hearings and extensive cross

¹⁰ See A.14-07-005 at 7.

examination of Cal-Am witnesses were conducted by ORA regarding this issue. After extensive settlement talks and discussion, a compromise was arrived at reducing the purchase price to \$2,000,000 plus consulting fees of \$900,000 to be paid to the Dunnigan owners for consulting services over a period of six years. The compromise will result in a \$1.6 million reduction to the initially proposed \$4.5 million maximum purchase price.

The consulting fees were not proposed in the initial application. In response to an ALJ ruling, the parties explained that the consulting fees are part of the compromise arrived at with regards to the reduced purchase price. The parties also explained that the Dunnigan owners are among the most knowledgeable concerning: (1) the water and waste water system operations in Dunnigan; (2) permits obtained for expansion; (3) planned developments in the area; and (4) local issues pertaining to groundwater pumping and water management in the area.¹¹

Based on above, it is reasonable to approve the \$2,000,000 purchase price for the Dunnigan assets and to include the \$900,000 in consulting fees to the Dunnigan owners for consulting services over a six year period.

4.4. Consolidation and adjustment to rate base

The settlement also proposes that Dunnigan's current service territory be consolidated for ratemaking purposes into Cal-Am's Sacramento service area and that the Sacramento district rate base be adjusted to reflect the \$2,000,000 purchase price plus an additional adjustment to reflect the costs of separating existing facilities from non-facilities.

¹¹ See August 31, 2015 Joint response to ALJ Ruling at 3.

Although the Dunnigan territory is not contiguous to Cal-Am's Sacramento district, it is approximately thirty seven miles from Cal-Am's Sacramento District operation center, and twenty miles from the Wild Wings subdivision in the City of Woodland, Yolo County, where Cal-Am provides water and wastewater services to approximately 332 customers.

Aside from proximity discussed above, the testimony of David Stephenson also provided that rate comparability, water supply and operation of districts proposed for consolidation were addressed in the application.

In view of the above, the Commission finds that consolidation of the Dunnigan service territory into Cal-Am's Sacramento service area is reasonable.

With respect to the proposed adjustment to the Sacramento district rate base to reflect the \$2,000,000 purchase price and an additional adjustment to reflect the costs of separating existing facilities from non-facilities, the testimony of Bentley Erdwurm provided a rate base comparison between Cal-Am's Sacramento district customers and the combined Dunnigan and Sacramento district customers.

The testimony presented by Bentley Erdwurm, which was not contested by any party, shows that the rate base for Cal-Am's Sacramento district (based on the 2014 rate base from the most current 2013 GRC) is \$140,050,300 spread over 57,875 customers.¹² The resulting difference per customer to the Sacramento district rate base after adding \$2,000,000 plus the costs of separating facilities from non-facilities to the rate base, is minimal. This is because of the relative size

¹² See testimony of Bentley Erdwurm at p. 3 and Exhibit "1" to the testimony of Bentley Erdwurm.

difference between the Sacramento district and Dunnigan¹³ and because the rate base per customer for Dunnigan is lower.

In view of the above, the Commission finds that the adjustment to the Sacramento district rate base to reflect the \$2,000,000 purchase price and additional adjustment to reflect the costs of separating existing facilities from non-facilities is reasonable. As discussed in Section 4.5 below, the proposed consolidation and rate base adjustment will not result in changes to customer rates until Cal-Am's next GRC application is approved.

4.5. Retention of current rates and memorandum accounts

The settlement proposes that Dunnigan customers retain their current rates for water service until the conclusion of Cal-Am's next GRC,¹⁴ subject to adjustment to account for the costs of addressing required environmental and operational compliance issues, improvements, and other water quality environmental issues discussed below. The Commission finds that retaining Dunnigan's current rates for its customers until Cal-Am's next GRC is reasonable, avoids confusion for Dunnigan's customers as opposed to adjusting rates multiple times, and ensures a smooth transition to the new owner from the perspective of the Dunnigan customers.

The settlement also requests the approval of four memorandum accounts to track the costs of addressing: (a) hexavalent chromium in the former Dunnigan service territory; (b) other required environmental improvements and

¹³ The Sacramento district has 57,875 customers while Dunnigan has 253 customers.

¹⁴ See application at p. 6. Cal-Am's next general rate case is expected to be effective on January 1, 2018.

compliance issues in the Dunnigan service territory; (c) the consulting payments for the Dunnigan owners; and (d) an account of accumulated pre-closing costs up to \$100,000, incurred by Cal-Am in connection with this purchase, which will be requested in its next general rate case.

The Commission finds that the adjustment for addressing costs of needed environmental, operational, compliance issues and the creation of the four requested accounts is reasonable. The hexavalent chromium and nitrate issues were not contested and were supported by the testimony presented by Mel Smith, one of the Dunnigan owners.¹⁵

5. Standard of Review Discussion

5.1. Effect on service quality of proposed sale

Cal-Am is a large, experienced water and wastewater system operator serving approximately 58,000 service connections in the Sacramento and Placer Counties alone. Dunnigan customers will benefit from improved water quality resulting from the transaction as Cal-Am employs a much larger operations staff, including water and wastewater professionals and water treatment operators who help ensure the production and uninterrupted supply of quality drinking water to customers.

In addition, the Dunnigan water and wastewater system were found to have several environmental and compliance issues that need to be addressed. A high concentration level of Hexavalent Chromium was detected in Dunnigan's water. The presence of nitrates was also detected in upper level groundwater although this upper level groundwater is not currently utilized for domestic

¹⁵ See Exhibit A-9 at 3-4.

supply. Other issues include the installation of geosynthetic liners in the wastewater ponds, repair of a cracked surface seal on the main well, construction of a back-up well and back-up electrical power source to maintain minimum pressure in the event of failure in grid power.

These environmental and compliance issues will be resolved more successfully by a larger, more experienced, and more financially stable operator such as Cal-Am.

5.2. Effect on service continuity of proposed sale

The proposed sale will relieve the Dunnigan owners, who are contemplating retirement, from their duty to provide public utility water and wastewater service to the Dunnigan service area. The proposed acquirer, Cal-Am, can efficiently operate and integrate the Dunnigan service area with the water systems that it already operates. The proposed sale ensures an orderly water system ownership transition and offers continued water service by a responsible and experienced owner, and greatly reduces the chance of the Dunnigan water system being abandoned.

5.3. Effect of purchase price on rate base and whether the purchase price is reasonable and properly calculated

In assessing the reasonableness of the sales price, the Commission examined the RCNLD valuation of \$6,525,016 and supporting documents presented by the company, the original maximum price of \$4,500,000 proposed in the application, the protest by ORA regarding the valuation and proposed price, and the various testimonies and exhibits presented by the parties. Valuation of the Dunnigan system was also heavily discussed during the hearings. Finally, the Commission examined the proposed sales price of \$2,000,000 plus consulting

services of \$900,000 resulting from the settlement, which was arrived at after much negotiation between all the parties in the proceeding.

Even including \$900,000 for six years of consulting services to the sales price of \$2,000,000, the resulting amount of \$2,900,000 is \$1,600,000 less than the originally proposed sales price of \$4,500,000 and \$3,625,016 less than the RCNLD valuation of the Dunnigan assets. The proposed sales price ultimately represents a compromise arrived at after much negotiation and litigation. The Commission finds that the sales price is reasonable.

As discussed in Section 4.4 of this decision, the rate base for Cal-Am's Sacramento district based on the 2014 rate base from the most current 2013 GRC, is \$140,050,300 spread over 57,875 customers. Section 4.4 of this decision likewise discussed that consolidating Dunnigan into Cal-Am's Sacramento district for ratemaking purposes is proper in this instance.

Based on the above, the request to add the purchase price of \$2,000,000 plus the costs of separating facilities from non-facilities, to the combined Dunnigan and Sacramento district rate base, and consolidating the 253 Dunnigan customers with the 57,875 Sacramento district customers, will have a minimal impact on the revenue requirement burden for each customer because of the relative difference in size between Dunnigan and Cal-Am's Sacramento district.

Moreover, both Dunnigan and Cal-Am's Sacramento district customers will retain their current rates until Cal-Am's next GRC is approved, which is scheduled for January 1, 2018. Once Cal-Am's next GRC is completed, rates for the Dunnigan customers may even decrease as certain fixed costs are projected to be reduced from benefits of economies of scale. Dunnigan customers are also projected to benefit from being operated by a much larger and experienced operator in Cal-Am. The requested adjustment to the Sacramento district rate

base as a result of transaction will not occur until after Cal-Am's next GRC is approved, and as stated above, the impact of the transaction on revenue requirement for each customer was calculated to be minimal.

Based on the above, the Commission finds that the sale meets the ratepayer indifference test. The buyer, Cal-Am has the financial net worth and sufficient liquid assets to own and operate the Dunnigan water and wastewater system.

In assessing the reasonableness of the sales price, the Commission examined the RCNLD valuation of \$6,525,016 and supporting documents presented by the company, the original maximum price of \$4,500,000 proposed in the application, the protest by ORA regarding the valuation and proposed price, and the various testimonies and exhibits presented by the parties. Valuation of the Dunnigan system was also heavily discussed during the hearings. Finally, the Commission examined the proposed sales price of \$2,000,000 plus consulting services of \$900,000 resulting from the settlement, which was arrived at after much negotiation between all the parties in the proceeding.

Even including \$900,000 for six years of consulting services to the sales price of \$2,000,000, the resulting amount of \$2,900,000 is \$1,600,000 less than the originally proposed sales price of \$4,500,000 and \$3,625,016 less than the RCNLD valuation of the Dunnigan assets. The proposed sales price ultimately represents a compromise arrived at after much negotiation and litigation. The Commission finds that the sales price is reasonable.

5.4. Safety

In response to a request from the assigned ALJ during the September 16, 2014 PHC, Cal-Am submitted testimony from Audie Foster on issues concerning safety and security. Foster's testimony discussed Cal-Am's commitment to employee and customer safety. The testimony also discussed

Cal-Am's intent to assess potential Arc Flash¹⁶ hazards at its facilities, and actions taken by Cal-Am to comply with the Public Health and Bioterrorism Preparedness and Response Act of 2002 to ensure safety and reliability of Cal-Am's systems. The Commission finds that there are no safety issues resulting from the proposed transaction.

5.5. California Environmental Quality Act (CEQA) review

The Commission also assessed whether the proposed transaction is in compliance with CEQA requirements.

CEQA applies to projects which have a potential for resulting in either a direct or physical change in the environment, or a reasonably foreseeable indirect physical change, which require discretionary approval from a governmental agency, unless exempted by statute or regulation.¹⁷

The proposed purchase and sale is not subject to CEQA guidelines because there will be no change in the way Cal-Am utilizes the Dunnigan assets after consummation of the proposed transaction.

This decision does not authorize any construction projects. Construction projects which Cal-Am may conduct in the future must undergo CEQA review as required by CEQA Guidelines Section 4004(b).

¹⁶ Arc Flash events occur when the instantaneous electrical current flowing through an electrical device rapidly exceeds the device's current carrying capacity, resulting in an explosive release of energy.

¹⁷ See CEQA Guidelines, California Code of Regulations, Title 14 Section 15378(a).

6. Conclusion

We conclude that the proposed sale to Cal-Am of all of the assets that comprise the Dunnigan water and wastewater systems is reasonable, in the public interest, and will provide tangible benefits to ratepayers.

The Commission has historically favored settlements that are fair and reasonable in light of the record as a whole. The settlement agreement is reasonable in light of the record as a whole, for the following reasons. The record shows that both Cal-Am and Dunnigan desire the transfer the Dunnigan owners no longer want to continue doing business as a regulated public utility. Another entity must then take over ownership and operation of the Dunnigan water and wastewater system and Cal-Am has the experience, ability and financial resources to operate the systems. The purchase price for the Dunnigan system is fair and the terms and conditions for customers will remain unchanged as a result of the acquisition. There will be no immediate changes in rates. Dunnigan customers will also enjoy the benefits from economies of scale after it is consolidated with the much larger Cal-Am Sacramento district and existing environmental and operational issues in Dunnigan will be more easily resolved. The adjustment to rate base to reflect the purchase price will have minimal effect on the revenue requirement per customer in Cal-Am's Sacramento district. The settlement agreement likewise resolves all issues before the Commission in this proceeding.

The settlement agreement is also in the public interest. The settling parties, Cal-Am, Dunnigan, and ORA, fairly represent the interests of the public affected by the transaction. Cal-Am and Dunnigan presented evidence regarding benefits of the transaction for the Dunnigan customers, and Cal-Am provided evidence that the transaction will have minimal effect on its Sacramento district customers.

ORA, pursuant to its duty to obtain the lowest possible rate for service consistent with reliable and safe service levels, actively participated in settlement discussions and supports the terms of the settlement.

The settlement agreement is consistent with the Commission's well-established policy of supporting resolution of disputed matters through settlement, and avoids the time, expense, and uncertainty of further EH and further litigation. There are also no disputed facts between the parties. Further, the Commission finds that no part of the settlement agreement contravenes any statutory provisions or prior Commission decisions, and provides sufficient information for the Commission to discharge its future regulatory obligations with respect to the parties and their interests and obligations. The settlement agreement does not contradict current Commission rules and does not constitute a precedent regarding any principle or issue in this proceeding or any future proceeding.

The Commission approves the all-party settlement agreement between Cal-Am, Dunnigan and ORA because the settlement agreement is in the public interest, reasonable in light of the record as a whole, and consistent with law.

The purchase and sale agreement between Cal-Am and Dunnigan is approved. Cal-Am's CPCN is amended to include the current service territory of Dunnigan.

7. Categorization and Need for Hearings

In Resolution ALJ 176-3340, dated August 14, 2014, the Commission preliminarily categorized this application as Ratesetting, and preliminarily determined that EH were not necessary. However, the application was protested and EHs were held on March 24, 2015, and April 1, 2015. Therefore, the preliminarily determination is changed to "hearings are necessary."

8. Comments on Proposed Decision

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Public Utilities Code and Rule 14.6(c)(2), the otherwise applicable 30-day period for public review and comment is waived.

9. Assignment of Proceeding

Carla J. Peterman is the assigned Commissioner and Rafael L. Lirag is the assigned ALJ in this proceeding.

Findings of Fact

1. In Resolution ALJ 176-3340, dated August 14, 2014, the Commission preliminarily categorized this application as Ratesetting, and preliminarily determined that EH were not necessary.

2. Dunnigan is a Class D public utility water company regulated by the Commission that provides water and wastewater services to approximately 253 connections at the Happy Time RV Park in Yolo County.

3. Cal-Am is a Class A public utility water and sewer company regulated by the Commission that provides regulated water and wastewater utility services in parts of San Diego, Los Angeles, Ventura, Monterey, Sonoma, Sacramento, and Placer Counties.

4. The owners of Dunnigan are contemplating retirement and no longer wish to continue doing business as a regulated public utility.

5. ORA objected to the original systems valuation of the Dunnigan assets stated in the application which was \$6,525,016, and the original maximum purchase price of \$4,500,000.

6. Hearings were held on March 24, 2015, and April 1, 2015, and additional hearing dates set to take place were cancelled in light of the parties having reached a settlement.

7. The proposed settlement supercedes the application and purchase agreement where it differs from those documents.

8. Sections 6.1(d), 6.1(e), 6.1(f), 6.1(g), 6.1(i) and 6.1(j) of the Settlement Agreement provides that the parties agree to recommend that the Commission undertake certain specific acts or approve specified requests.

9. The settlement purchase price of \$2,000,000 and consultancy payments totaling \$900,000, to the Dunnigan owners for a period of six years is \$1,600,000 less than the originally proposed maximum sales price of \$4,500,000, and \$3,625,016 less than the RCNLD valuation of the Dunnigan assets presented in the application.

10. Cal-Am is an experienced operator of water and wastewater systems and has the financial net worth and sufficient liquid assets to own and operate the Dunnigan water and wastewater system.

11. The Commission examined key metrics regarding tangible benefits to ratepayers resulting from the proposed transaction including service quality, continuity of service and impact of the purchase price on rate base.

12. The Dunnigan territory is not contiguous to Cal-Am's Sacramento district but is approximately thirty seven miles from Cal-Am's Sacramento District operation center and twenty miles from the Wild Wings subdivision in the City of Woodland, Yolo County, where Cal-Am provides water and wastewater services to approximately 332 customers.

13. The rate base for Cal-Am's Sacramento district based on the 2014 rate base from the most current 2013 GRC, is \$140,050,300.

14. Cal-Am's Sacramento district has over 57,875 customers.

15. The settlement proposes that subsequent to the sale, Dunnigan customers retain its current rates until Cal-Am's next GRC.

16. The Dunnigan water system environmental faces several environmental and compliance issues that need to be addressed such as the high concentration level of Hexavalent Chromium in Dunnigan's water, presence of nitrates detected in upper level groundwater, repair of a cracked surface seal on the main well, and construction of a back-up well and back-up electrical power source.

17. The proposed transaction is not subject to CEQA guidelines.

Conclusions of Law

1. The all-party settlement between Cal-Am, Dunnigan and ORA should be adopted.

2. Sections 6.1(d), 6.1(e), 6.1(f), 6.1(g), 6.1(i) and 6.1(j) of the Settlement Agreement should be interpreted to mean that the parties request the Commission to perform the specific acts, or grant the specific approvals, stated therein.

3. The proposed purchase price of \$2,000,000, including \$900,000 total for six years of consultancy services is reasonable.

4. Transfer of ownership of Dunnigan to Cal-Am meets the test of ratepayer indifference and provides tangible benefits, in that customers will be unaffected in terms of service quality and continuity of service and the resulting impact of the purchase price on rate base is reasonable.

5. Cal-Am has the operational experience and financial ability to own and operate Dunnigan.

6. The current owners of Dunnigan should be authorized to sell and Cal-Am authorized to buy the Dunnigan water system.

7. After the sale of Dunnigan becomes final, the current owners of Dunnigan should no longer be required to provide public utility service to the customers of Dunnigan.

8. After the sale of Dunnigan becomes final, Cal-Am's CPCN should be amended to include the former territory of Dunnigan.

9. After the sale of Dunnigan becomes final, the Dunnigan service area should be consolidated to Cal-Am's Sacramento district for ratemaking purposes.

10. Dunnigan customers should retain the same rates post-sale, until Cal-Am's next GRC application is approved.

11. Four memorandum accounts should be established to track the costs of: (a) hexavalent chromium in the former Dunnigan service territory; (b) other required environmental improvements and compliance issues in the Dunnigan service territory; (c) the consulting payments for the Dunnigan owners; and d) an account of accumulated pre-closing costs incurred by Cal-Am up to \$100,000.

12. The proposed sale of Dunnigan to Cal-Am is not subject to CEQA.

13. California-American Water Company must file a Tier 1 Advice Letter within thirty days of taking ownership of the public utility assets of Grant Park Development, Inc., doing business as Dunnigan Water Works, in order to update the tariff sheets with its new ownership information, including new service area maps and description in new water schedules for water and waste water service in the acquired service area.

14. The preliminary determination regarding hearings in Resolution ALJ 176-3340, dated August 14, 2014, should be changed to hearings are necessary.

15. This proceeding should be closed.

ORDER

IT IS ORDERED that:

1. The July 10, 2015 all-party motion filed by California-American Water Company, Grant Park Development, Inc., doing business as Dunnigan Water Works (Dunnigan), and the Office of Ratepayer Advocates, concerning the sale and purchase of the public utility assets of Dunnigan is adopted.
2. The sale of the public utility assets of Grant Park Development, Inc., doing business as Dunnigan Water Works and purchase by California-American Water Company for \$2,000,000 is approved.
3. The retention of Mel Smith and Jerry Burger, the two owners of Grant Park Development, Inc. doing business as Dunnigan Water Works, as consultants for a period of six years from the effective date of this decision, with monthly compensation of \$12,500 collectively, for consultancy services, is approved.
4. After the sale of the public utility assets of Grant Park Development, Inc., doing business as Dunnigan Water Works (Dunnigan) to California-American Water Company is completed, the current owners of Grant Park Development, Inc., will no longer be required to provide regulated water and wastewater services to the customers of Dunnigan.
5. After the sale of the public utility assets of Grant Park Development, Inc., doing business as Dunnigan Water Works (Dunnigan) becomes final, the certificate of public convenience and necessity previously granted to California-American Water Company is amended to include the territory of Dunnigan.
6. After the sale of the public utility assets of Grant Park Development, Inc., doing business as Dunnigan Water Works (Dunnigan) to California-American Water Company is completed, California-American Water Company must charge

currently authorized tariffed rates of Dunnigan to Dunnigan customers, until new rates are authorized in California-American Water Company's next general rate case.

7. Within thirty days of this decision, California-American Water Company (Cal-Am) must file a Tier 1 Advice Letter requesting the establishment of four separate memorandum accounts to track the costs of : (i) addressing hexavalent chromium in the former Dunnigan Water Works (Dunnigan) service territory; (ii) required environmental improvements and compliance issues in the Dunnigan service territory; (iii) consulting payments to Mel Smith and Jerry Burger; and (iv) an account of accumulated pre-closing costs up to \$100,000, incurred by Cal-Am in connection with the purchase of Grant Park Development, Inc., doing business as Dunnigan, recovery of which may be requested in Cal-Am's next general rate case.

8. California-American Water Company must file a Tier 1 Advice Letter within thirty days of taking ownership of the public utility assets of Grant Park Development, Inc., doing business as Dunnigan Water Works, in order to update the tariff sheets with its new ownership information, including new service area maps and description in new water schedules for water and waste water service in the acquired service area.

9. Within ten days of the consummation of the sale of the public utility assets of Grant Park Development, Inc., doing business as Dunnigan Water Works to California-American Water Company (Cal-Am), Cal-Am must notify the Director of the California Public Utilities Commission's Division of Water and Audits in writing that the sale has been completed.

10. The preliminary determination made in Resolution ALJ 176-3340 of the need for hearings is changed to hearings are necessary.

11. Application 14-07-005 is closed.

This order is effective today.

Dated _____, at San Francisco, California.